OFFICE OF THE

Auditor General of British Columbia

Strategic Direction and Funding Proposal

December 2003

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vision

Making a difference for the people of British Columbia by contributing to accountable and well-performing government

mission

To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance

values

As we pursue our corporate goals, we are committed to:

Excellence

We strive to meet the highest standards of service, professionalism, integrity and independence.

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.

We seek to maintain a relationship of mutual respect and trust with those we serve, and willingly share our experience and expertise.

Our people

We value the unique contribution and talents each individual adds to our office and community.

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on working together, we promote a spirit of cooperation and teamwork throughout our organization.

We are committed to the concept of personal and professional development and support quality-of-life endeavours.

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit to the Legislative Assembly of British Columbia my December 2003 Strategic Direction and Funding Proposal.

As contemplated by the Auditor General Act, the Legislative Assembly referred (motion 97) the responsibility to consider my funding proposal to the Select Standing Committee for Finance and Government Services.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
December 2003

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Highlights

In this funding proposal, I explain why now is the time for a stronger—not a weaker—independent public scrutiny of the performance of government.

Key elements of my proposal are to:

- increase my office's appropriation by five hundred thousand dollars.
- provide an additional "Contingency" amount of five hundred thousand dollars to pay for examinations legislators may request under the new Auditor General Act.
- endorse my plan to continue to charge fees on a cost recovery basis for our audits of the financial statements of individual organizations, as approved by the Select Standing Committee on Public Accounts (see Appendix C).

Introduction

On April 4th, 2003, the Legislative Assembly put in place a new Auditor General Act that sets out a demanding set of responsibilities for my office. The strategies and priorities described in this report provide the framework I will use to determine how best to fulfill those responsibilities.

In its deliberations of my November 2002 funding proposal, the Select Standing Committee on Finance and Government Services recommended reduced the appropriation for my office by 5% for the year 2003–04. It told me to expect a further reduction of 10% for the year 2004–05, and to expect this reduced level of funding to be maintained for the year 2005–06—*unless a compelling case can be made for additional funding for specific program activities.*

I believe there is a compelling case for a stronger—not a weaker—independent public scrutiny of the performance of government. Government is restructuring its programs and changing to a results focused management approach during a period of intense financial pressure and economic uncertainty. This increases the difficulties legislators face in ensuring the government uses public resources and delivers public services effectively.

The work of my office is one of the few mechanisms giving legislators independent information on the performance of government. Weakening the capacity of my office to serve legislators does not support open and transparent government through rigorous and objective public scrutiny—scrutiny essential for public confidence in our institutions of government. I respectfully ask legislators for increased funding to stop the erosion of my capacity to serve them through my office's independent scrutiny of the performance of government.

In requesting this, my primary goal is that legislators and the people of British Columbia receive the best information possible for assessing the performance of government.

My office works towards this goal through three lines of business. We examine and report publicly on the reliability of government financial statements, on the degree to which government manages its key risks, and on the quality of government performance reports.

The new Auditor General Act requires legislators to participate directly in determining the funding of my office. Legislators assigned specific elements of that responsibility to two committees—the Select Standing Committee on Public Accounts and the Select Standing Committee on Finance and Government Services.

The Select Standing Committee on Public Accounts deals with my plan for the audits of the financial statements of government organizations and trust funds, as well as my audits of organizations that are not consolidated within the government's overall summary financial statements. On November 13th, 2003, this Committee approved my plan for the fiscal years 2004/05 to 2006/07. In Appendix C, I set out the recommendations approved by the Committee.

My office's primary source of funding is an annual appropriation from the Legislative Assembly. I am also able to recover the costs of work through fee-for-service agreements with government related organizations.

The Select Standing Committee on Finance and Government Services is assigned the responsibility to decide the overall amount of funding for my office and to approve the basis on which I charge fees. This report is intended to help the Committee fulfill that responsibility.

Our Role

My office serves the Legislative Assembly and the people of British Columbia by providing independent assessments and advice on the accountability and performance of government. Our assessments and advice support legislators in discharging their responsibility to carry out a meaningful and rigorous public scrutiny of government. I believe the public takes assurance when there is a strong and independent audit function.

My primary goal is that legislators and the public receive the best information possible for assessing the performance of government. My office works towards this goal by providing independent information on the reliability of government financial information, on the adequacy of its risk management practices, and on the quality of its performance reporting.

The recommendations that flow from our work highlight, for legislators, opportunities for government to improve its management and accountability practices. Our key performance indicators relate to the extent to which the performance information reported by government strengthens and becomes more useful, and the extent to which legislators and government support our recommendations.

Strategic Context: A Challenging Period of Change Continues

The oversight role of legislators is more demanding and important than ever.

Government continues to change significantly, both what it does and how it delivers programs and services. At the same time, legislators are directing government to use results-focused information for its planning, managing and reporting. These changes and new directions affect how government fulfills almost all facets of the responsibilities entrusted to it by the people of British Columbia. Furthermore, this is a time of significant financial pressures, economic uncertainty, and increased public expectations for a more open and transparent government.

Legislators carry out an essential role in our system of governance by holding government to account for the economical, efficient and effective management of public money. The public expects this "holding to account" to be rigorous and objective. Much work lies ahead to bring to life such scrutiny. When legislators deal with multi-billion dollar decisions, they need rigorous cost and performance information, they need independent assurance that such information is reliable, and they need to know about the government's capacity to deliver the programs and services promised.

In both the private and public sectors, governing groups have enormous responsibilities. For them, access to independent information is essential, particularly when significant change is taking place. As the public's elected governing group, legislators need rigorous objective performance information because the organizations they govern face new and more complex risks in the effective use of resources and the delivery of services. In the British Columbia government, for example, such risks arise from restructuring roles and responsibilities, changing management

control, reducing management capacity, and changing the means and methods of service delivery.

During change, organizations may be less effective because people are expending much of their time adapting to new roles and responsibilities. Managing, and meaningful scrutiny of, performance can be more difficult because roles and responsibilities are in flux, and new service delivery priorities and standards are not yet in place. In addition, when significant change takes place during a period of financial pressure and economic uncertainty, organizations often respond by making changes with greater speed and, at times, with less attention to important management and accountability challenges.

Priorities and Challenges

All of us know much work needs to be done before there can be a comprehensive and rigorous public scrutiny of government performance. Complete financial planning and reporting information is not yet in place, credible cost and performance information is still not available for many parts of government, and the performance reports of government require improvement.

In determining our office work priorities, we consider what issues are important to legislators in the context of our knowledge of government's operations. As well, we are guided by the desire to contribute to stronger government management and accountability practices.

We decide what work we should do through our three lines of business with reference to the following key priorities:

- encourage government to implement a complete financial planning and reporting framework;
- establish a sound system of financial statement audits, within that broader planning and reporting framework;
- examine accountability and risk management, particularly where significant change and risk exist, with a focus on health and education;
- examine accountability and risk management for large capital projects and complex mission-critical information systems; and
- encourage reliable and relevant results-focused performance reporting.

My office faces several difficult challenges in carrying out our work program.

The first arises from government's adoption of generally accepted accounting principles effective April 1st, 2004. This will expand the scope of government's budget and summary financial statements, to include the full financial plans and results of over 170 provincial public sector organizations, over 90 for the first time. As the auditor of the government's summary statements, I must ensure my office has sufficient involvement in and knowledge of the whole government reporting entity. My office must also understand control environments, business practices and accounting issues of those organizations included in the summary financial statements for which I am not the appointed auditor.

The second challenge is that more is being expected of all external auditors. Recent North American business failures have shaken public confidence in financial reporting and auditing. To restore public confidence, the profession and others have moved to strengthen the rules that guide those who prepare financial statements and those who audit them. I must ensure my office regains the capacity to build into our due diligence practices new and more rigorous independence and performance standards.

The third challenge relates to the ongoing restructuring of how government carries out its programs and policies. There are new forms of organizations, new service delivery arrangements, including public private partnerships, and new governance and accountability relationships and expectations. To respond to the heightened interest of legislators and the public in this restructuring, I need to ensure that my office has the capacity to understand and assess the new arrangements.

The fourth challenge is regarding performance reporting. Through the Budget Transparency and Accountability Act, legislators require government to set out clearly what it plans to achieve and to report clearly what it did achieve. This is a very significant step towards more open and transparent government. Legislators, recognizing that such information must be reliable, have endorsed the principle that they must receive independent audit assurance on the reliability of government performance information. Our challenge is to develop appropriate methodology and work with private sector auditors to build capacity for carrying out such assurance work.

The fifth, and perhaps the largest, challenge is to maintain as much coverage as possible of risk management practices across the many important areas of government. The risk management challenges facing government have increased significantly.

Now is the time to strengthen—not weaken—the independent scrutiny of the performance of government. I believe such scrutiny is essential for public confidence in our institutions of government.

Work Plan

Attesting to the Reliability of Government Financial Statements

We plan to allocate about 40% of our resources to examining the financial performance information in government financial statements. Examining the reliability of the government's summary financial statements is a central feature of this work. Those statements include financial measures, (such as surplus or deficit, debt, and specific revenue and expenses) subject to intense public scrutiny and used by many to assess important policy directions.

During this next year, the government's summary statements will become much more complex to prepare and audit because they will include the complete financial results of over 90 additional organizations, and the financial consequences of complex restructuring transactions.

We plan to focus on four priorities. First, we will examine this new more complex set of government summary financial statements and complete our examination within 90 days after the yearend, to meet the government's timetable.

Second, we will put in place a financial statement audit system throughout the provincial public sector that recognizes and meets the information needs of legislators. This system will include many more organizations, each with its own board of directors and management teams, and most with private sector auditors.

Third, we will increase the extent to which we examine the financial control systems used by government.

Fourth, we will continue to provide timely advice to government on the many accounting and accountability issues that arise as a result of restructuring.

Examining Risk Management Practices

We plan to allocate about 50% of our resources to examining the government's risk management practices (examinations often referred to as performance or value-for-money audits), and to following up on the extent to which government has acted upon our past recommendations.

We plan to:

- complete an examination of the degree to which the government is embracing a results-focused management culture;
- begin to examine the government's approach to public-private partnership arrangements, and
- examine several mission-critical information systems.

Within the health system, we plan to:

- complete examinations of the prevention and treatment of diabetes, and of the state of the work environment in health authorities;
- begin to examine management and accountability issues pertaining to the Pharmacare program, the Medical Services Plan, and the new Abbotsford health care facility;
- begin to examine whether the quality of health care services are affected by alternative service delivery arrangements; and
- follow up on the status of our previous recommendations pertaining to the information used to allocate resources to the health authorities, to the performance agreements put in place for each health authority, and to the alternative payment program used to compensate physicians.

Within the education system, we plan to begin to examine the extent to which:

- information technology is being used effectively in the K-12 system both for learning and for developing computer literacy;
- changes to trades and apprenticeship training are adequately designed to address a possible shortage of skilled workers in British Columbia;
- the K-12 system is adequately managing and providing for the needs of children at risk; and

- government is ensuring the Province's private post-secondary education institutions are offering efficient, effective and accountable education and training to British Columbians.

We also plan to complete an examination of the restructuring of child protection services; an examination of ICBC's investment governance policies and practices; and a review of the transfer of control of BC Ferry Corporation.

In addition, we plan to begin examinations of the status of the government's commitment to implement principles of sustainability within its natural resource programs; its protection of drinking water sources; its management of gaming; and its systems of control put in place for several complex revenue systems.

And finally, we plan another review of the status of the 2010 Olympic games undertaking.

Assessing the Quality of Performance Reports

We plan to allocate 10% of our resources to assessing the quality of government performance reports. Encouraging results-focused management and accountability is a key initiative of government, supported by legislators through legislation pertaining to service plans and service plan performance reports.

Recently, legislators endorsed a set of general performance reporting principles designed to guide government organizations in how to report on the results they have achieved. The government has indicated that one of its key priorities is annual audits of the reliability of the information contained in its performance reports.

My office is working with officials of government to develop a program for such audits. That program is intended to lead to the day when legislators and the public will know the extent to which government cost and performance information is reliable. Currently, legislators are now asked to assess planned and actual results pertaining to multi-billion dollar programs without independently audited performance information.

In this next year, I plan to carry out necessary development work and pilot projects to support this audit plan. We will examine the extent to which the general quality of government performance reports is improving. We will work with several government

organizations that have shown leadership by asking my office to assess the quality of their performance reports. We will also further develop the methodology required to audit performance reports and continue to participate in national standard setting work. Finally, we will build a broader base of assurance—providing capacity by seeking opportunities to partner with other assurance providers, including private sector auditors and the internal audit community.

In this next year, I will bring a longer-term assurance program to the Select Standing Committee on Public Accounts for its consideration. In next year's funding proposal, I will also set out the required financial support.

Responding to Standing Committee Requests

The new Auditor General Act allows for a standing committee of the Legislative Assembly to ask me to carry out specific examinations. This gives legislators a new means of initiating a rigorous independent scrutiny of government performance issues, issues which might be particularly time sensitive. For example, the Select Standing Committee on Public Accounts recently directed me to report to it on how best to examine governance, management and accountability issues associated with government involvement in building a new transportation link in the Lower Mainland.

When I receive such requests, I will investigate and report back to the requesting committee on the nature, scope and costs of an examination that could meet its information needs.

I ask legislators to provide my office with a contingency amount to fund the costs of these requests so that the examinations can be done in a timely manner.

If, at the end of the year, the costs of such requests are less than the "contingency" amount, I will return those funds. If, during the year, the costs of requests exceed the contingency amount, I will seek additional funding from the Committee making the request.

Recommendations

1. **I ask the Select Standing Committee on Finance and Government Services to recommend to the Legislative Assembly an appropriation of $8.9 million to fund the operations of my office for the year ending March 31st, 2005, in two parts:**
   a. **An amount of $8.4 million for my ongoing responsibilities; and**
   b. **A contingency amount of $0.5 million for work requested by a Committee of the Legislative Assembly under Subsection 13(2) of the Auditor General Act.**
2. **I ask the Select Standing Committee on Finance and Government Services to approve my plan to continue to charge fees, on a cost-recovery basis, and to ensure the related recoveries estimated to be $2.3 million are included in the Estimates of my office for the year ending March 31st, 2005.**
3. **I ask the Select Standing Committee on Finance and Government Services to recommend to the Legislative Assembly an appropriation of $0.2 million to fund capital expenditures of my office for the year ending March 31st, 2005.**

Implications of Reduced Funding

In my funding proposal last year, I recommended the appropriation for my office be maintained at the amount provided for in the previous year. I also noted that, for the year ending March 31st, 2005, I would seek additional funding of $0.5 million to support legislators as they carry out their responsibility to publicly scrutinize the performance of government.

The Select Standing Committee on Finance and Government Services recommended that my appropriation be reduced by 5%, to $7.9 million. The Committee also said to expect a further reduction of 10%, to $7.1 million, in the year ending March 31st, 2005.

As a result of the 5% funding reduction, I am not carrying out several planned projects. For example, I did not proceed with reviewing the government's approach to public private partnership arrangements. I stopped plans to examine how government manages key environmental issues. I did not examine the government's systems for collecting oil and gas royalties. I deferred our review of the investment management practices at ICBC and our review of the performance of the education sector. And, I delayed following up on the status of the government's implementation of previous recommendations for change (endorsed by the Select Standing Committee on Public Accounts).

If this Committee decides to confirm the previous Committee's recommendation that my appropriation be reduced by a additional 10%, I will need to weaken my capacity to carry out independent scrutiny even further. This means that critical areas of government performance will not be examined in a public, independent manner.

All facets of the work we do to support legislators will be affected. I will do my best, however, to carry out the work required to report on the reliability of the government's summary financial statements in the time frame asked for by government, and to provide timely advice to government on the many accounting and accountability issues that arise as a result of restructuring.

However, I will limit work on the government's approach to public-private partnership arrangements. I will not examine the status of the government's commitment to implement principles of sustainability. I will scale back our planned work to examine the government's management of key risks in the health and education sectors. And, I will stop our plans to examine the government's controls systems pertaining to important revenue programs.

Finally, I will, once again, delay following up on the status of the government's implementation of previous recommendations endorsed by the Standing Committee on Public Accounts, and I will delay work needed to make possible the audit of the reliability of cost and performance information provided to legislators by government.

Maintaining Capacity

Weakening support for my office also adds to the challenge of ensuring we continue to produce quality work. Because of funding cuts and public service early retirement programs, I continue to lose many valuable experienced people who work with me to carry out complex work and make difficult judgments. I need to ensure the work of my office continues to be well done, through seeking opportunities to leverage our work, through sound management, and through rigorous quality control.

- We are working more closely with other legislative auditors through the Canadian Council of Legislative Auditors, by jointly:
  - conducting examinations;
  - researching accounting and auditing matters;
  - developing and maintaining common audit methodologies; and
  - developing common audit tools for audits of similar areas.
- We are building stronger working relationships with private sector auditing firms.
- We are challenging our management practices and:
  - making appropriate use of central agency systems;
  - applying our risk audit criteria to our own practices;
  - putting in place a more robust and efficient management information system;
  - sharing services and expertise with other legislative officers;
  - benchmarking our approaches and costs against other audit practices; and
  - using internal, peer and external practice reviews.

In February 2004, I will publish a service plan for the next three years including our work program for 2004–05 based on the funding support provided to my office. In June 2004, I will publish my annual performance report for the year ending March 31st, 2004.

Funding
($ Millions)

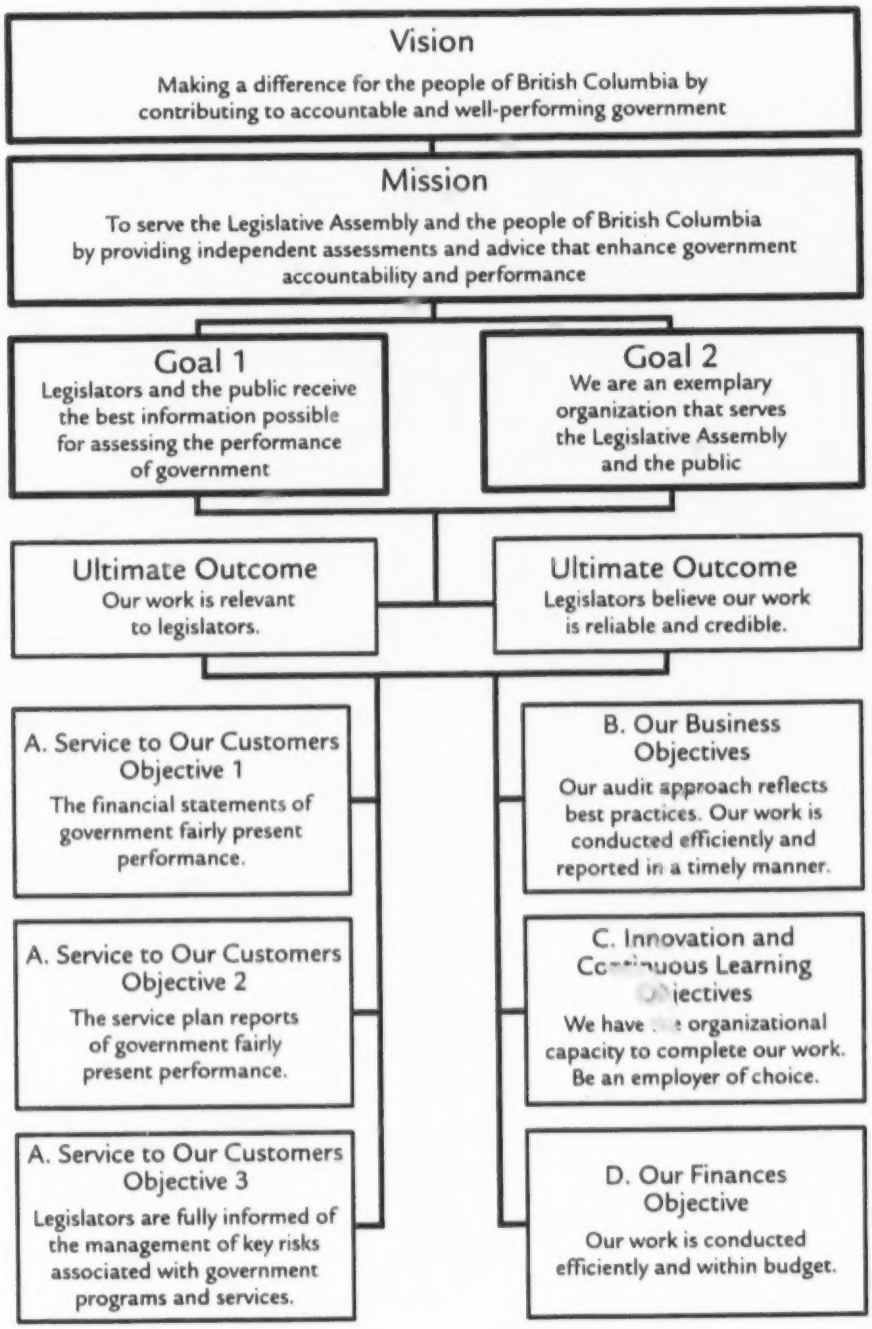
	Actual		Forecast	Planned		
	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07
Source of funding						
Appropriation[1]	7.90	8.36	7.90	8.40	8.90	9.40
Recoveries[2]	1.79	2.01	2.00	2.30	2.30	2.30
Total funding	9.69	10.37	9.90	10.70	11.20	11.70
Funding used						
Salaries and benefits	6.54	7.06	7.07	7.44	7.67	7.90
Professional services[3]	0.96	0.93	1.12	1.45	1.58	1.79
Support	0.88	1.06	1.08	1.13	1.15	1.18
Rent and depreciation	0.64	0.64	0.63	0.68	0.80	0.83
Total funding used	9.02	9.69	9.90	10.70	11.20	11.70
Funding returned	**0.67**	**0.68**	**0.00**	–	–	–
Capital spending						
Authorized	0.21	0.19	0.19	0.20	0.20	0.20
Used	0.20	0.18	0.18	0.20	0.20	0.20
Contingency[4]	–	–	–	0.50	0.50	0.50

Notes

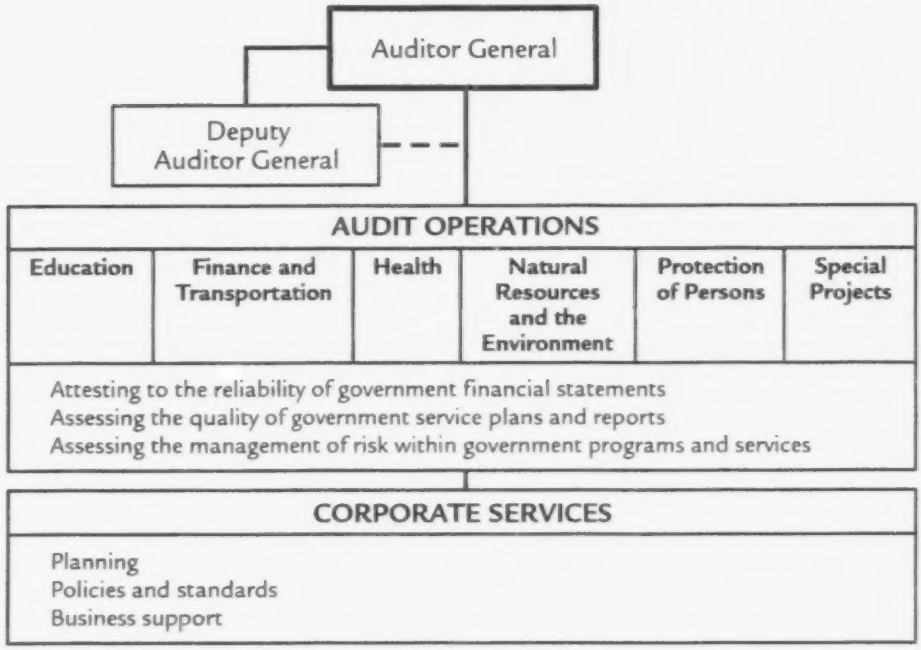
1. An appropriation funds our costs of attesting to the reliability of the government's summary financial statements, of assessing the quality of government service plan reports, and of examining how well government manages its key risks.
2. Revenue from recoveries funds our work done on a fee-for service basis, with rates set to recover costs. This work primarily relates to financial statement examinations carried out with the agreement of governing boards of individual government-related organizations. On November 13th, the Select Standing Committee on Public Accounts approved this work.
3. Professional services expenses are increasing because we are making more use of contractors and increasing our reliance on private sector auditors.
4. For 2004–2005, we propose contingency funding of $0.50 million for the costs of examinations requested by the Legislative Assembly or its committees under section 13 (2) of the Auditor General Act.
5. In November 2002, the Select Standing Committee on Finance and Government Services recommended that our appropriation be reduced by 5% to $7.90 million in 2003–2004, and to expect a further reduction of 10% to $7.10 million in 2004–2005.

Appendices

Appendix A: Our Goals and Objectives


Vision
Making a difference for the people of British Columbia by contributing to accountable and well-performing government
Mission
To serve the Legislative Assembly and the people of British Columbia by providing independent assessments and advice that enhance government accountability and performance
Goal 1
Legislators and the public receive the best information possible for assessing the performance of government
Goal 2
We are an exemplary organization that serves the Legislative Assembly and the public
Ultimate Outcome
Our work is relevant to legislators.
Ultimate Outcome
Legislators believe our work is reliable and credible.
A. Service to Our Customers Objective 1
The financial statements of government fairly present performance.
A. Service to Our Customers Objective 2
The service plan reports of government fairly present performance.
A. Service to Our Customers Objective 3
Legislators are fully informed of the management of key risks associated with government programs and services.
B. Our Business Objectives
Our audit approach reflects best practices. Our work is conducted efficiently and reported in a timely manner.
C. Innovation and Continuous Learning Objectives
We have the organizational capacity to complete our work. Be an employer of choice.
D. Our Finances Objective
Our work is conducted efficiently and within budget.

Appendix B: Our Organization



Appendix C: Recommendations Approved by the Select Standing Committee on Public Accounts

At the November 13th, 2003 meeting of the Select Standing Committee on Public Accounts, I asked the Committee to approve three recommendations contained in two reports entitled *Request for Approval to be Appointed Auditor of an Organization Outside the Government Reporting Entity and Financial Statement Audit Coverage Plan for Fiscal Years 2004/05–2006/07.*[1]

The Committee approved my three recommendations.

I ask the Select Standing Committee on Public Accounts to approve the Financial Statement Audit Coverage Plan for the fiscal years 2004/05–2006/07, as presented in Appendix A of this report.

I ask the Select Standing Committee on Public Accounts to direct me to administer the auditor appointment process as described in this report.

I ask the Select Standing Committee on Public Accounts to approve the continuation of my Office as the appointed auditor of the British Columbia Investment Management Corporation and the Workers' Compensation Board for the next three fiscal years.

[1] The full text of these reports is available at the Office of the Auditor General's website at http://www.bcauditor.com/AuditorGeneral.htm

Appendix D: Other Relevant Reports

Report – *Financial Statement Audit Coverage Plan for Fiscal Years 2004/05 – 2006/07*

Report – *Request for Approval to be Appointed Auditor of an Organization Outside the Government Reporting Entity for Fiscal Years 2004/05–2006/07*

Report – *Service Plan, 2003/04–2005/06*

Report – *2002/2003 Annual Report of the Auditor General of British Columbia*